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DE RUEHIN #0919/01 1160255
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FM AIT TAIPEI
TO RUEHC/SECSTATE WASHDC 5011
RUEATRS/DEPT OF TREASURY WASHDC
INFO RUCPDOG/USDOC WASHDC
RUEHBK/AMEMBASSY BANGKOK 3660
RUEHBJ/AMEMBASSY BEIJING 6676
RUEHUL/AMEMBASSY SEOUL 8593
RUEHGP/AMEMBASSY SINGAPORE 6879
RUEHKO/AMEMBASSY TOKYO 8697
RUEHML/AMEMBASSY MANILA 0038
RUEHJA/AMEMBASSY JAKARTA 4071
RUEHKL/AMEMBASSY KUALA LUMPUR 3721
RUEHHI/AMEMBASSY HANOI 3303
RUEHBY/AMEMBASSY CANBERRA 4501
RUEHWL/AMEMBASSY WELLINGTON 1766
RUEHHK/AMCONSUL HONG KONG 7925
RUEHGH/AMCONSUL SHANGHAI 1016
RUEHGZ/AMCONSUL GUANGZHOU 0192

UNCLAS SECTION 01 OF 02 TAIPEI 000919

SIPDIS

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STATE PLEASE PASS USTR
STATE FOR EAP/RSP/TC, EAP/EP
USTR FOR ALTBACH and Stratford
USDOC FOR 3132/USFCS/OIO/EAP/WZARIT
TREASURY FOR OASIA/LMOGHTADER
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN AND NY FRB MARIA
BOLIS

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Taiwan Increases Deposit Insurance Premium

SUMMARY

1. Taiwan will increase the deposit insurance premium paid by banks starting in July 2007 by shifting the basis for premiums from insured deposits to outstanding deposits. In response to complaints of U.S. and European banks in Taiwan, authorities may reduce the rate. END SUMMARY.

Outstanding Deposits to Substitute Insured Deposits

2. In January 2007, the Legislative Yuan amended the Deposit Insurance Act to shift the basis for calculating premiums from insured deposits to total outstanding deposits, effective July 1, 2007. The amendment was based on a recommendation by the Central Deposit Insurance Corporation (CDIC) and the Financial Supervisory Commission (FSC).

3. The amount of insured deposits for any bank customer will be raised to NT\$1.5 million (US\$45,450 at the exchange rate of NT\$33 per US\$) from NT\$1 million (US\$30,300).

4. The categories of premium rates will be increased from three to five. The lowest rate will be reduced from the current 0.05% to 0.03% or 0.04%, while the highest premium rate is increased from 0.06% to 0.07% or 0.08%, depending on the bank credit rating.

Misleading Press Report

5. A CDIC official described as "overstated" local press reports of April 17 claiming the premium burden on foreign banks will increase 40 times from current levels. The CDIC official clarified that the

premium-based deposits include only checking account deposits, demand deposits, and time and savings deposits, but not foreign currency deposits, government deposits, the Central Bank's deposits, or inter-bank deposits. Currently, the insured deposits are estimated at NT\$10 trillion (US\$303 billion), about half of the NT\$22 billion (US\$670 billion) in outstanding deposits that will be used as the basis of premiums starting in July.

International Practices, Low Premiums

¶16. The CDIC official told AIT that the United States and Japan and most other bank deposit insurance systems base deposit insurance premiums on outstanding deposits. In addition, Taiwan's current premiums of 0.05% - 0.06% are among the lowest in the world. Rates in other countries are 0.05% - 0.43% in the United States, 0.083% - 0.115% in Japan, and 0.05% - 0.14% in Hong Kong.

Premium Burdens to Increase

¶17. Since the deposit base will more than double in July, the premium burden on banks will increase substantially. For foreign banks, the increased burdens will be partly offset by a downward adjustment of the premium rates from the current 0.05% to 0.04% or 0.03% based on their better credit rating, according to the CDIC official. For many local banking institutions, the increase in their premium burdens will result not only from the proposed change in the base but also from the proposed increase in premium rates due to poor credit ratings. Foreign banks' average non-performing loan (NPL) ratio in January 2007 was 0.63%, much lower than the 20% average for local trust companies, 8% for credit departments of farmers' and fishermen's associations, 1.6% for credit coops, and

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2.28% for domestic banks.

Complaints, Likely Further Changes

¶18. On April 18, representatives of Taipei's American Chamber of Commerce and European Chamber of Commerce raised the premium increase during a meeting with FSC Vice Chairperson Susan Chang (septel). In response, Vice Chairperson Chang instructed the CDIC to reconsider the proposed premium rates and see if there were any possibility for further reductions.

YOUNG